

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

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Retail Access Optimization Initiative

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Docket No. N2011-1

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS HEATH  
TO USPS/NNA T1 7-15  
(October 7, 2011)

National Newspaper Association hereby provides the responses of its witness Max Heath, NNA T1, to USPS/NNA T1-7-15, submitted on October 3, 2011. The interrogatories are restated verbatim. The response follows each interrogatory.

Respectfully submitted,

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**USPS/NNA-T1-7.** Please refer to your testimony on page 2, lines 19 through 22. You state, “[W]hen Congress charged the Postal Service with ‘binding the nation together,’ newspapers were an integral part of that mission. They remain so today and must be served, despite the Service’s financial troubles.” Please define and describe the term “served” as used in your testimony and please identify which newspapers will not be “served” upon implementation of the RAOI. For each newspaper identified, please include the location (city, state, and ZIP Code) of the newspaper.

**RESPONSE:**

By "served," I mean the newspapers in the mail that are locally entered must be delivered within a day, and desirably, those in adjacent areas are delivered within two days. Without this assurance of service, no newspaper will be able to remain in the mails. A stale newspaper is of no value to a reader. Because the publisher provides every type of assistance to the Postal Service by highly presorting and drop-shipping to delivery units, there is no reason for NNA to expect local deliveries to be complicated by the Postal Service's retail unit optimization unless the Postal Service unreasonably chooses not to provide publishers with the ability to keep the local newspaper bundles local, and not to send them off to distant offices only to be returned at unnecessary transportation expense back to the local area.

In this docket, I have not examined the potential closures to match them to newspapers that may be affected, but am addressing the Postal Service's policy generally. Please see my response to USPS/NNA T1-3.

**USPS/NNA-T1-8.** Please refer to your testimony on page 2, line 28, and page 3, lines 1 through 2. You state, “[I]n its choices for downsizing its distribution network, USPS must choose its moves strategically and wisely. The size of a post office is not necessarily the best indicator of its importance.” Please define the term “importance” and/or describe the factors that contribute to the “importance” of a Post Office. Please also provide any documents in which the Postal Service and/or representatives of the Postal Service have claimed that the size of a Post Office is the best indicator of its importance.

**RESPONSE:**

By importance, I mean that a post office's role in maintaining service for a significant local mailer, like a newspaper, that may be spending upward of several hundred thousand dollars a year in Periodicals and Standard Mail postage with a local office. The Postal Service confirmed in its response to POIR No. 1, question 2, that it is not considering this revenue in determining whether a local office may be discontinued.

**USPS/NNA-T1-9.** Please refer to your testimony on page 3, lines 2 through 4. You state, “[I]t is not sufficient for USPS to simply decide that its rural service mandate is no longer achievable because of chronic cost overruns in its networks.”

(A) Please define and describe the “rural service mandate” referenced in your testimony. In your answer to this part, please identify all sources (statutes, regulations, policies, etc.) that support your definition and description. To the extent that your answer differs from your answer to USPS/NNA-T1-2, please explain how it differs.

(B) Please define and describe the “chronic cost overruns” that you reference in your testimony. If your answer to this part includes chronic cost overruns identified by the Postal Service in this docket, please provide citations to the portions of Postal Service filings in this docket that discuss such overruns.

(C) Please identify and provide all documents that support your claim that the Postal Service has “simply decided[ed]” that its “rural service mandate” as you have defined it and described it in response to part (A) cannot be achieved due to costs overruns identified in your answer to part (B).

## **RESPONSE:**

(A) Please see my response to USPA/NNA-T1-2. This question appears to be restating that interrogatory.

(B) I would not expect the Postal Service to provide evidence in this docket that refers to cost overruns in its retail optimization network. In fact, as I stated in my testimony, I do not disagree in principle with the Postal Service's desire to close some small post offices. I am simply stating that service to mailers can and should be maintained if USPS wishes to keep the customers it has.

However, most mailers have serious concerns about USPS costs, and those concerns have reached public attention. I am attaching a recent article on the Des Moines Register's website on October 4 that contributes to the perception of many mailers that the Postal Service does carry excess costs. I believe it is essential for the Service and employees' organizations to work urgently to eliminate them, so mailers can regain trust in the Postal Service.

**Idle Sioux City postal workers to earn millions**

## Union contracts locked in salaries for 40 employees

11:28 PM, Oct. 4, 2011 |

15 Comments



Written by

**JASON CLAYWORTH**

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### By the numbers

Closure of mail-processing facility studied since:  
2005

New union contract signed:  
May 2011

Workers with guaranteed jobs:  
40

Annual payroll and benefit costs:  
\$2.88 million\*

Annual savings to close facility:  
\$2.8 million

\* Amount will drop if workers move into other jobs with the Postal Service or elsewhere.

Tuesday was the first day that Scott Tott was scheduled to become a standby employee at the Sioux City mail-processing facility that closed Friday.

Tott — and 39 of his workplace peers — might have nothing to do for the next 3½ years, but will still get paid.

Top postal officials have studied plans to close the facility since 2005. Yet in May the officials agreed to a four-year union contract.

The cost to the U.S. Postal Service to continue paying the salaries is \$1.72 million a year.

Add benefits, and the total average costs of those 40 employees top \$2.88 million a year, slightly exceeding the estimated \$2.8 million annual savings of merging the center's functions with those in Sioux Falls, S.D.

"The sickening thing about this is they knew it (the closure) was coming" and still agreed to a four-year contract, said Tott, president of Sioux City Postal Works Union Local 186.

Postal spokesman Richard Watkins said closing the facility makes financial sense, even with the standby jobs. Watkins said it's likely that the majority of the 40 standby employees eventually will be relocated to other postal jobs, so the overall cost of paying standby employees for doing nothing will be far lower in future years.

Tott, an Army veteran, described the situation of reporting to work with potentially nothing to do as demoralizing.

The situation has prompted some of Iowa's top elected officials to sound further alarms about the rationale behind the federal government's decisions to close some postal operations.

"My question is: Are there actual cost savings in this move?" asked U.S. Sen. Tom Harkin, a Democrat.

**Sen. Chuck Grassley**, a Republican, echoed a similar sentiment.

"If the Postal Service is determined to close this facility to save money, then it better make sure that it's saving money," Grassley said.

U.S. Rep. Steve King, R-Kiron, whose district includes Sioux City, said he believes some of the intricate details about the downsizing were not revealed to lawmakers during various congressional hearings.

"I'd have liked it if they had the vision not to sign those union contracts," King said.

Senior postal officials made the decisions to sign the contract. They prefer not to discuss their rationale, Watkins said.

"I'm not going to get into going back and re-litigating what the rationale was for the negotiations. They are what they are," Watkins said. "I don't want to characterize them

as good, bad or indifferent. The contract was voted on, signed, ratified, sealed and delivered. It is what it is.”

**Tott pointed out** another quirk in the contract: In previous years, there were no limitations on how far the Postal Service could relocate employees if it closed facilities. The new contract contains a 50-mile limit from the processing plant in Sioux City. So if a job becomes available in farther-flung areas, those employees would not be forced to take the job, Tott said.

That part of the contract was not something the union fought for in contract negotiations, but was offered by the Postal Service, Tott said.

“I’m not understanding how they go into and negotiate and agree to restrictions on themselves,” said Tott, who has been involved with union negotiations for a decade.

The Postal Service faces dire financial straits, including potential default, stemming largely from the \$5.5 billion it owes for future retiree health benefits. Since 2006, the Postal Service says it has closed 186 facilities, eliminated 110,000 jobs, removed more than 1,500 pieces of equipment and shaved an estimated \$1.9 billion in costs.

**Provisions for standby** workers have been part of mail union contracts for years as postal officials have sought to match work hours to the workload as managers scale back operations. Mail volumes peaked in 2006 at 213 billion pieces of mail and are projected to drop to 150 billion by 2020, which means further reductions are necessary. Standby status is critical to help fill unforeseen gaps that arise during transitions, Watkins said.

Federal officials last month announced that four more Iowa mail-processing centers are among 252 being studied for closure across the country. They’re in Cedar Rapids, Waterloo, Carroll and Creston.

That study follows an announcement this summer that 12 individual post offices will close in Iowa as part of a plan to eliminate more than 170 across the country.

Plus, two additional big waves of post offices are being studied for closure, including about 250 total in Iowa, out of nearly 4,400 nationwide. And U.S. Postmaster General Patrick Donahoe has said as many as 15,000 locations nationally, about half the retail network, could be reviewed in the next several years.

**The wisdom behind** some of the closures or decisions leading up to the closures has been under scrutiny for months.

Gov. Terry Branstad last month decried the process in which closure decisions were made and asked Donahoe to impose a one-year moratorium on the closing of Iowa post offices to allow the concerns of rural residents to be addressed.

Sioux City Councilman Aaron Rochester said the Sioux City closure, including the union contract, is yet another example of poor planning from federal officials that needlessly costs the Postal Service millions of dollars.

“I don’t think that there is anything that they’ve done that isn’t strange,” Rochester said. “Another dumb move is, to me, just pretty much protocol.”

[end of article]

(C)I believe the Postal Service's response to POIR No. 1 sufficiently supports my concern. If the Postal Service is not considering the revenue provided by community newspapers that enter mail in smaller post offices as sufficient reason to keep that office open, I would say the Postal Service has decided no longer to serve those rural areas. Smaller communities depend upon their Periodical newspapers and “shoppers” sent via Standard Mail with grocery ads, coupons, and other special local offers and news.



**USPS/NNA-T1-10.** Please refer to your testimony on page 3, lines 11 through 13. You state, "NNA's appearances before the Commission have often had at their core mission to highlight the continuing importance of community newspapers to small town and rural America. Although our membership also comprises many urban and suburban newspapers, it is the smaller communities that are most often in the line of fire for Washington policies."

(A) In your testimony, you distinguish "smaller communities" from "urban and suburban" areas. Please define and describe the term "smaller communities" and explain in what specific respects such communities differ from "urban and suburban" areas.

(B) Please define and describe the term "Washington policies" and please identify the specific policies to which you refer in this portion of your testimony. In your answer to this part, please explain whether and how such policies differ from the policies of the United States Postal Service.

## **RESPONSE:**

(A) The US Department of Agriculture published a document in 2008 that said rural is a "state of mind." What is Rural? By Louise Reynnells, Patricia LaCaille John, Rural Information Center, National Agricultural Library, U.S. Department of Agriculture.

The federal government seems to have numerous definitions of rural. I believe the Census Bureau defines urban areas as cities with more than 50,000 people, and rural is everything else. From my viewpoint, a city of 50,000 is a big city. For NNA, a typical community newspaper home town is more likely to be 20,000 people and fewer. Our newspapers, while sometime suburban, are more often located in ex-urban territory, 1-2 counties out from a larger metro area, and then even more often, in rural areas that are general 3 counties and further from any metro area.

(B) The best example I can give of perplexing Washington policies is the inability of the United States Congress to pass appropriations to keep the federal government running, let alone craft legislation that helps keep our cherished Postal Service in business. To people in small town America, the dysfunctionality of official Washington at times is a puzzle--an increasingly dangerous puzzle.

Similarly, the Postal Service's discussion of ending Saturday mail service, when many depend upon it, the consideration of closing small post offices that our newspapers need to inform communities, and the possibility of closing some 250 mail processing plants that are closer to smaller communities so that mail can be trucked ever further to

urban sorting centers all fall into categories that I would say most NNA newspaper folks are finding pretty perplexing.

**USPS/NNA-T1-11.** Please refer to your testimony on page 7, lines 3 through 5. You state, “USPS has the power to protect its newspaper mail by requiring the replacement service provider to provide the exceptional dispatch drop.” Please also refer to the following excerpt from the transcript of the hearing on September 8, 2011, which contains the oral testimony of USPS Witness James J. Boldt (Tr. 1/470, lines 5 through 18) in response to a question posed by Ms. Tonda Rush (NNA).

Q If one of the exceptional dispatch offices on the endangered species list were to be chosen for a discontinuance, how would the newspapers’ mailing practices [h]ave to change?

A The associate office that would be the administrative office that will be delivering to that location, either in those cluster boxes or the P.O. [B]ox there will be the office that will take that out and originate that out to that P.O. Box. Now, actually, in that example that you used, it actually saves you cost because you’ll actually get to stop at less facilities, and it will reduce your transportation, and it will also give us the product perhaps even a little bit earlier.

(A) In preparing your testimony, did you consider the portion of the testimony of Jim Boldt excerpted above. If your answer is affirmative, please provide citations to the portions of your testimony that address or discuss this portion of Witness Boldt’s testimony.

(B) Assume for this part that currently, a newspaper must stop at two exceptional dispatch offices to receive exceptional dispatch service for a given service area (or for specific cluster boxes or P.O. Boxes). Please also assume that under the RAOI, one of these offices is discontinued, and the other office becomes the administrative office for deliveries serviced by the discontinued office. Assuming that the remaining administrative office continues to provide exceptional dispatch to that newspaper for its service area (or cluster boxes or P.O. Boxes), do you agree that the newspaper’s transportation costs could be *reduced* because the newspaper will only have to tender mail at one office as opposed to two offices? If your answer is negative, please explain how you reached your conclusion.

## **RESPONSE:**

(A) I agree with witness Boldt that fewer drop-shipping entry points (called exceptional dispatch for Periodicals) may lead to lower transportation costs for the publisher. Whether this change proves to keep the newspapers in the mail will depend upon a) whether the Postal Service’s increased transportation cost in bringing newspapers back

to the local community from a more distant entry office leads to higher postage rates; and more importantly b) whether the Service can deliver the newspapers within the same delivery windows as we have today. Please see my response to USPS/NNA T1-7.

So while we agree with Mr. Boldt, our primary concern remains having access to contract offices and Village Post Offices that might replace closed post offices, if there is box delivery there handled by the contractor or VPO provider.

(B) I believe the question misconstrues the meaning of exceptional dispatch. In an exceptional dispatch situation, the publisher enters and pays for the mail at its entry office, and transports bundles of newspapers at the publisher's cost to the exceptional dispatch office. If an administrative office in your scenario handled entry and paperwork including postage payment, and the delivery routes emanated from there to cover area served by a discontinued office, there would be no exceptional dispatch because the discontinued office would no longer have routes or boxes. If by the question you mean could an administrative office handle the entry, but some type of facility like a CPU were to replace the discontinued office, then newspapers would need to be able to drop exceptional dispatch bundles at the CPU. That is what NNA hopes the Postal Service intends in cases where an exceptional dispatch office is considered for discontinuance.

**USPS/NNA-T1-12.** Please refer to your testimony on page 8, lines 4 through 7. You state, “It is surprising to me, as a prior witness in PRC cases where questions about counting within-county revenues and volumes have been pervasive, to learn from the Postal Service's written testimony that commercial mailer revenues are not being examined in the discontinuation analysis.” Please provide the citation or citations to the Postal Service's written testimony that you reference in your testimony and please explain how such testimony supports your statement.

**RESPONSE:**

Please see my response to USPS/NNA T1-8.

**USPS/NNA-T1-13.** Please refer to your testimony on page 8, lines 11 through 14. You state, "It is not unusual for a local newspaper to use a post office as its entry location. In fact, although some newspapers in our membership enter their mail in formally constituted Business Mail Acceptance Units, by far the greater practice is to enter mail and pay for it at the local post office." Please identify the newspapers that enter their mail at Business Mail Entry Units and the newspapers that enter their mail at a local post office.

**RESPONSE:**

I am speaking generally from my experience as an industry consultant. I have done no studies to quantify which newspapers rely upon BMEUs and which ones enter at a local post office. In general, if a newspaper is printed or published near a BMEU, the BMEU is more likely to be the entry point. But in more exurban and rural areas, the newspaper is more likely to enter directly at a delivery unit post office.

**USPS/NNA-T1-14.** Please refer to your testimony on page 10, lines 26 through 27, and page 11, lines 1 through 2. You state, "The Commission should recommend that the Postal Service immediately issue a legal opinion that newspapers' within-county rate eligibility will in no case be denied because of the Postal Service's decision to close all post offices within a county." Please identify each county in which the Postal Service has issued a final determination to close all Post Offices within the county. Additionally, please identify the counties that will have no Post Offices if the Post Offices identified for closure in this docket are closed.

**RESPONSES:**

I am unaware of any post offices where a final determination has ended in all post offices being closed. But I am aware of publishers who have been told by postmasters or district managers that such an occurrence is likely as the Postal Service proceeds with closings in this docket and in others that may be ahead.

**USPS/NNA-T1-15.** Please refer to your testimony on page 11, lines 5 through 9. You state, “NNA member newspapers are long accustomed to taking on new costs and inconveniences as the mailing network changes. These costs are real, and they put the newspapers at an economic disadvantage. But to help the Postal Service overcome the financial challenges that gave rise to this docket, NNA is ready to assist our industry in finding workable solutions, provided timely delivery can still be provided.”

(A) Please describe the costs and inconveniences that newspapers have absorbed due to past changes in the Postal Service network.

(B) Please explain how the newspapers that have absorbed the costs and inconveniences identified in response to part (A) have been disadvantaged vis-à-vis other persons or entities. In your answer, please explain which persons or entities gain a comparative advantage over newspapers as a result of the costs and inconveniences identified in response to part (A).

(C) Please define and describe the “financial challenges” that you reference in your testimony. If your answer to this part includes financial challenges identified by the Postal Service in this docket, please provide citations to the portions of Postal Service filings in this docket that discuss each challenge.

(D) Please also refer to your testimony on page 12, lines 3 through 10. Is NNA opposed to the closure of all Post Offices where NNA members enter their mail? If the answer is negative, under what conditions would NNA not oppose the closure of a Post Office where an NNA member enters its mail?

(E) Please define and describe the phrase “timely delivery” as you understand it. If your definition and description relies on a statute, a regulation, and/or a postal policy, please provide a citation to the statute, regulation, and/or policy.

## **RESPONSE:**

(A) Since the Postal Service's last major network realignment in 1996, newspapers have faced slower service, longer transport times for newspaper copies in the mail for delivery within the state or newspaper area, and delays of 2-3 weeks for copies to more distant areas.



Publishers can do little to help themselves in the instances of the distant subscriber when the Postal Service fails to achieve its service standards. But keeping subscribers who do business, use schools and participate in community events in the market requires the publisher to engage in increased drop shipping. Costs vary depending upon the market, but with today's high fuel costs, the expense of hiring a bundle dropper can be significant for a newspaper that is barely profitable. Also, newspapers regularly must carry the expense of personnel to answer calls about late newspapers, and often to deliver an extra copy to keep the customer happy, often forced to pay First-Class prices to get the non-delivered or late Periodical to the subscriber.

(B) I don't believe anyone experiences an advantage when the Postal Service is unable to provide timely delivery. Newspapers lose subscribers; advertisers lose sales, and the Postal Service loses the public trust.

(C) Witness Boldt attests to the loss of postal customers in his testimony at page 6, the loss of revenue on page 7, precipitous declines in mail volume and the Postal Service's financial duress at page 13. In addition, I am keenly aware as a long standing member of the Mailers Technical Advisory Committee that the Postmaster General has stated that the Service may run out of money in the summer of 2012.

(D) No, NNA is not opposed to closure of every office where mail is entered, nor closure of offices used for exceptional dispatch, provided that the Postal Service can provide reasonable alternatives that continue to get the newspaper delivered on time without greatly increasing the cost to the publisher. My testimony has suggested many steps the Postal Service could take to help our members avoid harm, and keep their mail in the Postal Service. I believe these are reasonable steps.

(E) Please see my response to USPS/NNA T1-7.